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MAR 21 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

March 21, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

Re: CC Docket 95-185 -- "Interconnection Between LECs and CMRS Providers"

Yesterday, Ernest Bush and Ben Almond (both of BellSouth), Jay Bennett (Pacific Telesis), Susanne Guyer (NYNEX), Cyndie Eby (US West), Celia Nogales (Ameritech), Chuck Cosson (USTA), Dr. William Taylor (National Economic Research Associates), and I met with Jim Coltharp, Barbara Esbin, Dan Grosh, Jay Markley, Zenji Nakazawa, Kathryn O'Brien, and Walter Strack of the Wireless Telecommunications Bureau, and Kathy Franco and Rich Lerner of the Common Carrier Bureau. The purpose of this meeting was to discuss the Commission's proceeding on "CMRS Interconnection", and to provide the consensus position of the parties listed above ("Parties") on "bill and keep" and other related issues. A summary of issues discussed is attached.

The Parties believe that "bill and keep" represents unsound public policy and should be rejected. A "bill and keep" regime would provide preferential treatment to CMRS carriers, and create arbitrage opportunities that incent others to route traffic through them. It would also shift the cost burden of CMRS interconnection to other LEC services, and thus, require LEC subscribers to subsidize CMRS. The Parties believe that the Telecom Act prescribes a new model for local interconnection that is implementable today. Any interim plan, particularly one as economically inefficient as "bill and keep", would be counterproductive and should be rejected.

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Due to the time at which this meeting was concluded, this filing is being made one day late. Please include this correspondence as part of the public record in the above captioned proceeding. You may direct any questions regarding this matter to me on (202) 392-6980.

Sincerely,

Donald C. Brittingham

Donald C. Brittingham
Director - Wireless Policy

cc: Jim Coltharp
Barbara Esbin
Kathy Franco
Dan Grosh
Rich Lerner
Jay Markley
Zenji Nakazawa
Kathryn O'Brien
Walter Strack

"CMRS Interconnection"
CC Docket 95-185

LEC Industry Ex Parte

March 20, 1996

I. The two prerequisites for the development of a "Bill & Keep" policy are not met.

- CMRS-LEC traffic is significantly unbalanced, and adoption of "bill and keep" would tend to increase that imbalance.
- There are real costs associated with the transport and termination of calls.
- Also, the transaction costs of measuring and billing for CMRS interconnection do not exceed the costs of interconnection.

CMRS-LEC interconnection rates should be based on costs, should be non-discriminatory, and may include a reasonable profit.

II. Economically inefficient pricing signals which will result in inefficient competition.

- "Bill and keep" distorts the carriers' incentives to minimize costs.
- "Bill and keep" encourages competitors to seek out customers with a large share of originating traffic and to avoid customers with a large share of terminating traffic.
- "Bill and keep" subsidizes one local service provider at the expense of other, potentially more efficient service providers.
- "Bill and keep" creates a disincentive to invest in switching capacity to terminate calls.

"Bill and Keep" would lead to distorted and inefficient entry, investment and consumption decisions.

III. "Bill and Keep" would create inefficient arbitrage opportunities.

- Carriers (e.g., AT&T, Sprint) would have an incentive to route long distance traffic to cellular and/or PCS carriers and terminate that traffic at no charge on the LEC network.
- Previous examples of such arbitrage include termination of intrastate and interstate long distance traffic and substitution of switched and special access.
- CMRS interconnection is but one type of local network access, and a consistent policy for all types of local access is required to prevent uneconomic arbitrage.
- "Bill and keep" would not encourage additional competition in CMRS; the decision to enter is already made.

The Commission should adopt a consistent policy for local interconnection that applies to all competing carriers.

IV. The NPRM does not address how LECs will recover CMRS interconnection costs.

- "Bill and keep" would eliminate the contribution that CMRS interconnection prices currently provide toward the fixed and common costs of the network.
- "Bill and keep" would require customers of other LEC services to bear the costs of CMRS interconnection. Subsidizing CMRS interconnection from other LEC services where competition is increasing would not be sustainable and would not foster efficient competition.

"Bill and Keep" would require LEC subscribers to subsidize CMRS.

V. "Bill and Keep" replaces a negotiated agreement with a regulatory fiat.

- Negotiation with arbitration is more flexible, since it accommodates differences in billing costs, time of day distributions, etc.
- The obligation to provide interconnection to other carriers on the same terms and conditions prevents discrimination against small or unaffiliated CMRS carriers.

Negotiation of interconnection agreements will best meet market needs.